THE ATTITUDE OF BUSINESS TOWARDS FOREIGN TRADE

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The great European war will bring about not only large changes in the map of Europe but also tremendous changes in the industrial and commercial alignments of the world. The United States has been gathered up by the European explosion and projected into the world's affairs and into the world's markets in an entirely unexpected manner. The entire industrial and commercial trend of the United States has been altered. Great commercial and industrial opportunities confront us and beckon us on. It is a question, however, whether business is prepared to take advantage of these opportunities.

The American business community may be divided into two camps. One camp has for its slogan and motto the "home market." The other camp has for its slogan and motto "foreign trade." These two terms "home market" and "foreign trade" represent two highly contrasted attitudes towards the commercial and industrial future of the United States. In the "home market" group are those who, in the face of present opportunities to extend our trade into foreign markets, point out the large advantages of domestic trade and who are unable to see the advantages of developing a foreign market. In the "foreign trade" group, on the other hand, are to be found wide-awake, ambitious and imaginative business men who are looking forward to the expansion of their trade to all parts of the world.

There are in the present situation vast opportunities not only in the foreign markets but in the home market as well. The United States has been a very large importer of commodities manufactured in other countries. Since the beginning of the war the principal manufacturing countries of the world have ceased to manufacture for export to any considerable degree, and we find ourselves in urgent need of certain kinds of manufactured articles. We now find that we can no longer purchase them in sufficient quantities from

European nations. Here are many opportunities for the extension of American enterprise in the "home market," and if the great European war does nothing else than demonstrate to the American manufacturer the necessity of self-sufficiency and independence of other nations, it will have rendered the United States a service. For example, during 1914, we imported over thirty-five million dollars' worth of silk goods, over seventy million dollars' worth of cotton goods, over eighty-two million dollars' worth of manufactured fibers, and over one hundred and eighteen million dollars' worth of chemicals, drugs and other chemical compounds. The field of chemical manufacture seems to be an especially weak point in American industry, and is a field in which at present there is a vast opportunity to expand by the intelligent use of our natural resources in conjunction with the favorable opportunity afforded by the conditions in Europe.

Strange as it may seem, American manufacturers are not hastening to take advantage of these opportunities. This is especially true of those who belong to the camp which has for its slogan "home market." It seems to be a peculiar psychological trait of the "home market" man that he does not even believe in a natural, healthy extension of his cherished "home market," and even in the face of tremendous incentive to develop new lines of industry. American business men have not always been willing to face the problems which confront them and solve them on their merits or demerits. Large amounts of money and time have been spent for lobbying in attempts to obtain artificial restrictions and other legislative benefits from the federal government. This time and money could be much more profitably spent upon studies to secure more efficient methods of production and distribution. Investigations made by the federal government have disclosed a surprising lack of knowledge, in many American industries, of the exact, or even approximate, cost of production of the units of manufacture. There are enormous losses in the distribution of goods when large discounts are allowed and when cancellations are tolerated, and when goods pass through too many hands in the progress from the producer to the consumer. If more attention were given to these and similar matters, economies could often be effected which would obviate the alleged necessity for additional governmental aid.

There are some people who actually advocate the development

of the "home market" to the exclusion of all other markets. This fact alone shows the short-sightedness of the policy of the "home market" group. But there are other meanings in the term "home market." The term "home market" implies a limited outlook. It means provincialism in business; it means self-complacency; it contemplates the building of a tariff wall to keep out all invaders, even if that wall at the same time prevents the extension of our own markets abroad; it means nation-wide inefficiency because it excludes that competition with other nations which forces upon the American industry nation-wide effectiveness; it implies a certain lack of progress and stagnation; and finally, it implies small scale production in every sense of the word. The "home market" idea takes no cognizance of the fact that American manufactures are increasing vastly more rapidly than the population, and that unless greater foreign outlets are found for our products a limit will be reached sooner or later, in the development of many of our manufacturing industries.

The other group of opportunities has to do with foreign trade. It is in those foreign fields where European nations have held their sway almost undisputed by the United States, that there are to be found the largest opportunities for the extension of American commerce and industry. For a number of years the American manufacturer has neglected this fruitful field of commercial endeavor and has left it to his European competitor. Now his European competitor is otherwise engaged and he has been called upon, in many cases against his desire, to do business with foreign countries which have formerly been purchasing from the European nations which are at war.

It is not the intention of the writer to advise manufacturers and business men to give up "home markets" and to devote themselves to "foreign markets." Such advice would be absurd. The intention is to urge manufacturers to supply an even greater range of wants in the domestic market than they have ever heretofore supplied, and in addition, to urge them to recognize the opportunities in foreign markets and to go out and get the business which awaits them there. The "home market" should be expanded into the international market.

There is a considerable body of manufacturers and merchants in the United States who have adopted foreign trade as their aim in business. They are fully awake to the possibilities of the tremen-

dous foreign market and realize the advantages of it. The term "foreign trade" implies the many-sided development of industry. It means the internationalizing of our trade and the enlarging of our industrial and commercial outlook; it means the fearless competition of our manufacturers with those of other countries, not only at home but also abroad; it means the leveling of artificial barriers; it means the aggressive action on the part of our manufacturers rather than passive resistance; it means the practice of rigid economy, the complete utilization of inventions and the savings which result from capacity production; it means the creation in our industrial life of machinery for supplying, not only our own wants, but the wants of the world; but perhaps most of all it means the stabilizing of our business.

Our commercial and financial position would be greatly strengthened by a world market. England has admirably weathered the financial storm occasioned by the great European war, and it is realized that no small part of her strength is due to the fact that her markets are world-wide, and that London is to a considerable extent the financial center of the world. The financial situation at the opening of the war was most efficiently handled there, and it is only as we are able to approach the position now held by England that we shall be able to stabilize our commercial and financial conditions.

The situation facing the American business man today is a serious one. The question before him is whether he shall turn his face toward foreign lands from which the war has compelled his competitors to withdraw, or whether he himself shall withdraw into his "home market" and erect about himself an impassable barrier which will not only prevent foreign products from coming into the United States, but will also serve to prevent the products of the United States from going freely into the markets of the world. The important problems which confront the American business man and which he must decide on evidence which he considers pertinent are three:

(1) Are conditions in the world markets such as to warrant his invasion of them?

(2) Are the bankers of the United States prepared to finance the extension of his foreign trade?

(3) Can he, after the war is concluded, hold the markets which he has succeeded in acquiring while his competitors have been otherwise engaged?

In seeking for the answers to these inquiries, the present and past conditions which bear upon their determination must be carefully analyzed.

(*1*) *Are conditions in the world markets such as to warrant the American business man's invasion of them?*

Is it true that financial and business conditions in foreign countries are so bad as to make it impracticable for our manufacturers to market their products abroad? Those who hold the affirmative opinion point to South America. The countries to the south of us, they say, are almost bankrupt, the war has ruined their trade, they are unable to sell their products, they have no money and no credit and they cannot buy our goods.

Let us briefly inquire into the situation of these South American countries. They are each of them producers of raw materials. Argentina produces wheat, corn, linseed, meat, hides and wool; Uruguay produces wool; Chile produces copper and nitrate; Brazil produces coffee and rubber; Peru produces sugar and cotton; Bolivia produces tin; Colombia and Venezuela produce beef and tagua nuts, etc. These products formerly found markets in both the United States and Europe. Suddenly, on the first of August last, the European markets almost ceased to exist, and the prices of raw materials produced in Latin America fell as sharply as the price of cotton in this country. But conditions are changing. The countries which are most closely related to us, Colombia, Venezuela, Ecuador and the countries of Central America, are recovering and are now fairly prosperous. Argentina and Uruguay are fast approaching the normal. Bolivia and Peru have just started on the upgrade, and Brazil and Chile alone of the countries of Latin America (except Mexico) have been unable to do more than begin their recovery.

But after all, the present economic condition of the countries to the south of us is not as important as the application of common sense on the part of the American manufacturer in his attitude toward this foreign trade. While the present time is opportune for opening up new markets in South America, the time is not yet ripe for the immediate selling of goods. The first and necessary step is to send salesmen or, better, business diplomats into South America to study the markets, to learn the country, to meet the people, to

become acquainted with the trade and to lay the foundations for future business. It would be folly, however, to expect immediate and large financial returns. What has been said with reference to South America applies to a large part of the world. Conditions in the neutral countries are being readjusted and are fast approaching normal, and it is, therefore, an opportune time for the manufacturers of this country to be alert and to build up their trade in those countries.

(2) Are the bankers of the United States prepared to finance the extension of the American foreign trade?

Is it true that we cannot hope to finance foreign trade on a large scale? Is it true that our having been a debtor nation prevented the extension of our trade? It is sometimes said that foreign trade follows the flag, but it is more truly said that foreign trade follows the loan, or that foreign trade follows the investment. There is no doubt that unless the United States can make loans and investments in foreign countries, our manufacturers and merchants will not be able to develop their export trade to any considerable degree. It is true that we have been a debtor nation and that we are still obligated to foreign countries, but an interesting and important fact is that we are rapidly discharging those obligations, and that we have, within the last six months, turned the corner and are rapidly paying off our indebtedness to foreign countries.

The best evidence of the reversal of conditions and of the fact that the United States is now entering upon a creditor period in her history, is that within the last few months large quantities of gold have been sent here by European nations to pay off their indebtedness to the United States. The low sterling exchange in New York merely indicates that there are more Europeans who have debts to pay in New York than there are Americans who have debts to pay in London, and still further and striking evidence of the fact that we are fast becoming a creditor nation are the recent loans which have been made by our bankers to other nations, as for example, to France, Argentina, Sweden, Germany and Russia. In addition, the nations of Europe have found it necessary to arrange large credits in New York.

We are entering, therefore, upon a period of export capitalism, and we are now in a position, as we have never been before, to invest our capital in the industries and developments in foreign countries.

(3) *Can the American business man, after the war is concluded, hold the markets which he has succeeded in acquiring while his competitors have been otherwise engaged?*

Is it true that the cost of production in the warring nations of Europe will be low as a result of the war, and that we shall therefore not only be unable to hold the new markets that we may gain, but that we shall probably be unable to hold the markets that we had already attained?

The supposition underlying this question which has been widely circulated is that the war will lessen the costs of production abroad, and hence lower prices, and that the combatant nations will then be able to go back into the foreign markets temporarily occupied by the Americans, undersell them and drive them out.

In order to simplify the consideration of this problem, the following elements must be taken into account: good will, interest, labor, prices and taxes. The question then is: what will be the effect of the present war on each of them?

Nations like corporations have good will. When a nation gives up business in certain markets and withdraws in favor of competitors, it gives up a valuable asset which cannot be easily regained. Recently a large European concern sent an official to Spain to wind up its affairs. It is withdrawing from the Spanish market. In this particular line of goods that nation has had only two competitors: one, another combatant, the other the United States. Spain is on the eve of a business renascence. It is scarcely a question of whether the American manufacturer can get this market left free by the withdrawal of his competitors. He must go there to meet the demands which are not of his making.

With regard to the effect of the war upon interest rates, there is very little information available which would enable one to draw conclusions from past wars. Furthermore, the present war is so much more destructive than any previous war that conclusions drawn from the latter could scarcely be applied to the present. It is stated, however, "that after the Napoleonic wars the rate of interest rose. Russia, France and Austria had to pay more for their loans and that rates of from 7 to 9 per cent prevailed from 1814 to 1820. These rates were noticeably higher than those prevailing before that time." More accurate data are obtainable as to the effect of the Crimean war. It will be remembered that England, Russia, France,

Turkey and Sardinia were involved. In this case the London bank rate, which preceding the war had for ten years averaged 3.10 per cent, in the five years following the war averaged 4.60 per cent. There were corresponding increases in the interest rates .at Berlin and Paris.

The next item of cost to be considered is that of labor. The unemployed and the unemployable are not those who are fighting in the front ranks and suffering the severest losses. The skilled workmen, the men in their prime, are bearing the brunt of the war. Many of these men will never return and many others will be crippled and diseased. Not only will the actual effective number of workers be decreased, but the efficiency of labor as a whole will be considerably lowered in each of the warring countries. It will be impossible to reorganize the factories for years to come on a basis as efficient as that in the past. Thus the labor cost in production in those countries will be considerably raised.

Not only the labor cost but actual wages are likely to be considerably increased. Here the experience in past wars sheds some interesting light. Statistics of wages show that wages, expressed in index numbers, were 90.4 in 1850 as compared with 100 in 1860, which was taken as a basis. In 1865 they had declined to 66.2. In the next five years they rose steadily, reaching the maximum of 152.2 on a gold basis in 1872. Statistics of wages in France and Germany after the Franco-Prussian war and in Japan and Russia after the Russo-Japanese war show similar results.

The effects of some of the past wars on prices may be clearly shown by existing index numbers. Representing the average prices in 1860 as 100, the index numbers show that during the eight years preceding the Crimean war, prices in England (Sauerbeck) averaged 85.0, and during the ten years following the war they averaged 103.4. During the ten years preceding the Civil War in the United States prices (Faulkner) averaged 107.1, while during the ten years following the war they averaged 121.6, on a gold basis. In Russia, prices (Ministry of Commerce and Industry) averaged 102.8 during the period ten years before the Russo-Japanese war, and 129.8 during the seven years following the war, the average for the period 1890–1899 being represented as 100. In Japan, the prices of food, clothing and material (Department of Agriculture) averaged 98.8 during four years preceding, and 122.1 during the seven years following the

war, the prices in 1900 being represented as 100. It is likely, therefore, that Europe is entering on a period of high prices. The ten years succeeding this war will probably show high prices of food stuffs, raw materials and finished products.

With regard to the item of taxes which enters into the cost of production, it is only necessary to consider the cost of the present war and the burdens which it places upon the warring nations. The cost of this war is so prodigious that the figures can scarcely be comprehended. The mere statement that England in one year of this war will increase her public debt more than she has increased it in the last 100 years indicates the vastness of the financial operations. Enormous war debts are being piled up by the various European countries, and it must not be forgotten that the previous debts of Europe were already great before the war began.

The cost of the present war has been variously estimated. Mr. Lloyd-George, the British Chancellor, estimated that the cost to the allies of one year of the war would be about $10,000,000,000. The editor of the London *Economist* estimates that the per diem cost of the war in the larger countries alone, amounts to an expenditure of $50,000,000 per day. Already extraordinary measures are being employed to raise the sinews of war. In addition to the war loans which are estimated at about $6,000,000,000, other measures have been adopted. England has doubled her income tax, which now amounts to as much as 8 per cent in some cases. Germany has increased her capital tax, and has even issued treasury notes on security of personal property and jewelry. France has increased the authorized limit of bank notes and is raising taxes generally. But the general policy is evident on the part of the warring nations to secure the necessary funds for war, not from taxes, but from loans. This means that the effects of the war financially are not to be taken up immediately, but are to be distributed by funding operations over the next fifty or one hundred years.

The inference seems to be, therefore, that costs of production in Europe cannot possibly be lowered, and are quite likely to be considerably raised. If this is the result, the European level of costs and prices will more nearly approximate our own than ever. It will also mean that the American manufacturer will be able to compete with the European manufacturers on more favorable terms than ever before.

It appears, therefore, from the above statement of such facts as are obtainable, that the conditions in the world market are such as to warrant invasion by the American business man, not only in South America, but in other countries as well; that we are fast becoming a creditor nation and are now in a better financial position than ever before to extend our foreign trade; and that the costs of production in foreign countries are not likely to fall sufficiently, if at all, to drive American business men from the markets gained during the war, provided they will endeavor to deal with the foreign producers as the latter have always been accustomed to be dealt with.

The attitude, therefore, of the American business man, if he would take advantage of the tremendous opportunities that have suddenly been thrust upon him, and if he would continue the prosperity which he has enjoyed in the past, must be to emerge from his narrow policy of complacency with the home market and dependence upon artificial means to exclude foreign competitors there. He must look beyond the borders of his own country, not only to strive to extend his own trade to the uttermost parts of the world, but to meet his foreign rivals courageously in fair competition, both at home and abroad.